

## Message Text

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C O N F I D E N T I A L MOSCOW 18158

USDOC FOR BEWT/STROH

E.O. 11652: GDS

TAGS: ETRD, EEWT, UR, US

SUBJECT: DEPUTY FOREIGN TRADE MINISTER SUSHKOV COMMENTS ON US-SOVIET  
TRADE PROSPECTS

1. SUMMARY. DURING DECEMBER 18 MEETING WITH DEPUTY ASSISTANT SECRETARY DOWGIE, SOVIET DEPUTY MINISTER OF FOREIGN TRADE V.N. SUSHKOV GAVE RUN-DOWN ON SOVIET PLANS FOR ALUMINUM AND NATURAL GAS PROJECTS. ALTHOUGH HE INDICATED FULL AWARENESS THAT CHANGES IN U.S. TRADE LEGISLATION WERE UNLIKELY AT THIS TIME, SUSHKOV TOOK GENERALLY POSITIVE APPROACH AND STRESSED SOVIET INTEREST IN CONTINUING TO DO BUSINESS WITH U.S. COMPANIES WHENEVER POSSIBLE. ONLY SPECIFIC QUESTION RAISED BY SUSHKOV CONCERNED IBM LICENSE DENIAL, AND HE APPEARED TO ACCEPT DOWNEY'S EXPLANATION THAT NO POLICY CHANGE WAS INVOLVED. END SUMMARY.

2. REFLECTING SUSHKOV'S PERSONNAL INVOLVEMENT IN ALUMINUM PROJECT, BULK OF DISCUSSION WAS DEVOTED TO THIS SUBJECT.  
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ALTHOUGH AT OUTSET SUSHKOV DISCUSSED POTENTIAL ALCOA

PARTICIPATION IN ALUMINUM PROJECT AS THOUGH ALCOA MIGHT WELL TAKEN ON ENTIRE COMPLEX, HE GRADUALLY CAME AROUND TO POSITION WHICH HE TOOK IN REGANT DISUCSSIONVLITH ALCOA OFFICIAL T. WHITE (SEE YYDOA 17907) ACCORDING TO WHICH PECHINEY WOULD DO ALUMINA SMELTER WHILE ALCOA WOULD DO ALUMINUM REDUCTION PLANT AND OTHER PARTS OF TH COMPLEX. HE STRESSED, HOWEVER, THAT THIS LATTER ALTERNATIVE WAS NOT HIS PREFERRED SOLUTION BUT WOULD BE ADOPTED ONLY IF TIME PRESSURES REQUIRED GOING WITH PECHINEY.

3. WITH REFERENCE TO ALCOA PROPOSAL, SUSHKOV SAID HE COULD NOT STATE DEFINITELY WHEN SOVIET DECISION WOULD BE MADE, ALTHOUGH HE COMMENTED THAT MINISTRY OF FOREIGN TRADE WAS PRESSING BOTH METALLURGIMPORT AND LENINGRAD INSTITUTE (VAMI) TO MOVE AS QUICKLY AS POSSIBLE. ON CREDIT QUESTION, SUSHKOV SAID HE HAD NO IDEA HOW SOVIETS WOULD FINANCE THAT PART OF EQUIPMENT WHICH HAD TO BE PURCHASED IN UNITED STATES. HE NOTED THAT HIGHER NON-MFN TARIFF ON ALUMINUM IMPORTED INTO U.S. WAS A COMPLICATING FACTOR, BUT HE SUGGESTED THAT THIS ASPECT OF PROBLEM MIGHT BE SOLVED IF PRICE OF EQUIPMENT (PRESUMABLY TOTAL PACKAGE) OFFERED BY ALCOA WAS LOWER THAN PRICE OFFERED BY PECHINEY. (COMMENT: THIS PRESUMABLY MEANS THAT IF ALCOA PRICE WERE LOWER, SOVIETS WOULD BE PREPARED TO ABSORB TARRIFF DIFFERENTIAL THROUGH DISCOUNT IN PRICE OF ALUMINUM DELIVERED TO ALCOA. AS REGARDS MARKETING OF BUY-BACK ALUMINUM, SUSHKOV SAID SOVIETS HAD PROPOSED THAT ALCOA MARKET 50 PERCENT OF THE TOTAL IN EUROPE AND 50 PERCENT IN THE U.S. AND ELSEWHERE. HE ADDED, HOWEVER, THAT ALCOA HAD ESTIMATED THAT THEY WOULD NOT BE ABLE TO MARKET MORE THAN 20 PERCENT OF THE TOTAL IN EUROPE.

4. TURNING TO NATURAL GAS PROJECTS, SUSHKOV DREW SHARP DISTINCTION BETWEEN NORTH STAR AND YAKUTIA PROJECTS. AS REGARDS NORTH STAR, HE SAID THAT GROWING DEMANDS FOR NATURAL GAS IN WESTERN PARTS OF USSR, EASTERN EUROPE AND WESTERN EUROPE MADE THIS PROJECT OF DOUBTFUL VALUE FOR USSR. HE WENT ON TO POINT OUT THAT IN CASE OF YAKUTIS, LACK OF LOCAL DEMAND AT PRESENT OR IN COMING PERIOD FOR NATURAL GAS MEANT THAT USSR WOULD BE WELL ADVISED TO ENTER INTO COOPERATIVE PROJECT WITH FOREIGN COMPANIES TO DEVELOP THESE RESOURCES.

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SUSHKOV WENT THROUGH VARIOUS STAGES OF SOVIET NEGOTIATIONS WITH JAPANESE AND U.S. GROUP ON FINANCING FOR YAKUTIA EXPLORATION PHASE. OBSERVING THAT DURING ALL THIS PERIOD THE SOVIETS HAD DONE SOME WORK THEMSELVES, HE SAID THAT CURRENT ESTIMATES ON VALUE OF FOREIGN CREDIT NEEDED WERE NOW IN RANGE OF DOLLARS 100 MILLION, AS OPOSED TO DOLLARS 200 MILLION PREVIOUSLY. HE CAST SOME DOUBT ON SOLIDITY OF THIS LATEST FIGURE, HOWEVER, WHEN HE NOTED

THAT SOVIETS HAD PROPOSED TO JAPANESE THAT THEY PROVIDE DOLLARS 100 MILLION CREDIT, WITH U.S. GROUP PUTTING UP DOLLARS 50 MILLION, THUS ALLOWING FOR BLENDED RATE OF INTEREST WITHIN RANGE ACCEPTABLE FOR SOVIETS. SUSHKOV SAID JAPANESE REJECTED THIS VARIANT. (COMMENT: ALTHOUGH SUSHKOV INDICATED THAT SOVIETS WERE STILL KEEN TO MOVE AHEAD ON YAKUTIA PROJECT, HIS REMARKS DID NOT SUGGEST THAT THEY WERE PREPARED TO BITE THE BULLET AND PAY COMMERCIAL BANK RATES FOR U.S. SEGMENT OF CREDIT. END COMMENT.

5. ONLY QUESTION RAISED BY SUSHKOV CONCERNED IBM LICENSE CASE. HE ASKED WHETHER POLITICAL CONSIDERATIONS HAD DETERMINED DENIAL OF LICENSE OR WHETHER THERE WAS SOMETHING WRONG WITH INTOURIST AS A BUYER. IN REPLY, DOWNEY STRESSED THAT THERE HAD BEEN NO RPT NO CHANGE IN POLICY AND THAT SOVIETS SHOULD NOT LOOK FOR SUCH A CHANGE IN THE IBM LICENSE CASE. HE NOTED THAT FOUR MAJOR COMPUTER LICENSING CASES HAD BEEN DECIDED DURING 1975 AND THAT THREE (KAMA FOUNDRY, AEROFLOT AND ATC) HAD BEEN APPROVED. DOWNEY SAID THAT HE WAS SURE SUSHKOV WAS FAMILIAR WITH PARTICULAR SENSITIVITY IN WEST REGARDING INTOURIST. SUSHKOV REPLIED THAT HE WAS AWARE OF EFFORTS BY VARIOUS GROUPS (INCLUDING SOME OF INTOURISTS COMPETITORS) TO BLACKEN INTOURIST'S REPUTATION. FINALLY, DOWNEY POINTED OUT THAT IT HAD BEEN IMPOSSIBLE FOR U.S. TO BE CONFIDENT THAT THERE WOULD BE NO DIVERSION OF SYSTEM FOR UNAUTHORIZED USE, AND THAT MEMORY COMPONENT WAS MUCH LARGER THAN THAT APPROVED FOR AEROFLOT. SUSHKOV SAID THAT SYSTEM HAD BEEN DEvised WITH REQUIREMENTS OF 1980 IN MIND AND NOT ON BASIS OF INTOURIST'S CURRENT LEVEL OF BUSINESS. HE RETURNED TO QUESTION OF WHETHER INTOURIST MIGHT BE ALLOWED TO BUY SMALLER SYSTEM, AND CONFIDENTIAL

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DOWNEY SAID THAT INTOURIST WAS NOT RPT NOT UNACCEPTABLE IN PRINCIPLE AS A CUSTOMER. (COMMENT: DISCUSSION OF INTOURIST CASE WAS RELAXED AND SUSHKOV APPEARED TO BE GENUINELY RELIEVED TO HEAR THAT NO CHANGE IN BASIC USG POLICY SHOULD BE SEEN IN DENIAL OF LICENSE. END COMMENT).

6. COMMENT: GENERAL ATMOSPHERE OF DISCUSSION WAS POSITIVE AND SUSHKOV INDICATED AN INTEREST IN CONTINUING TO SEEK WAYS OF DEALING WITH U.S. FIRMS, INCLUDING ON THE MAJOR PROJECTS FOR WHICH HE HAS PARTICULAR RESPONSIBILITY. AS REGARDS LEGISLATIVE SITUATION IN U.S., SUSHKOV INDICATED AWARENESS OF FACT AHT CHANGES IN TRADE LEGISLATION WERE HIGHLY UNLIKELY. HE RECALLED THAT DURING HIS OCTOBER VISIT TO U.S., HE HAD MET WITH SENATORS JAVITS AND RIBICOFF,

BOTH OF WHOM, HE CLAIMED, ADMITTED TO HIM THAT CONGRESS  
HAD MADE A MISTAKE IN 1974 ON JACKSON/VANIK. HOWEVER,  
USHKOV SAID SENATORS TOLD HIM THAT USSR  
WOULD HAVE TO DEVISE FACE-SAVING RETREAT FOR CONGRESS  
AND SUSHKOV INDICATED HE HAD NO IDEA WHAT  
THIS IGH T BE.  
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